

### 1.3 FULLY ATTRIBUTABLE COSTING METHODOLOGY

This Manual reflects the FCC's prescribed fully allocated costing concept. This approach apportions the Company's costs, either directly or indirectly, among cost objectives (i.e., regulated, nonregulated or common) based on the principles of cost causation. Costs are apportioned to a cost objective if a cause and effect relationship can be observed between that cost and its cost objective. The combination of full allocation and cost causation constitutes allocation on a fully attributable cost basis. This relationship may be exclusive, in which case a cost can be directly assigned to a single cost objective without requiring attribution. In some cases, costs are incurred by regulated services and nonregulated activities which can be attributed to these two cost objectives based upon direct or indirect measures of cost causation. In other cases, costs are incurred by regulated services and nonregulated activities which cannot be directly or indirectly attributed between cost objectives and require the use of a general allocator.

Consistent with Part 64 Rules and Regulations, this Manual recognizes costs as falling into four categories:

- Directly Assignable: Costs of assets and/or resources which are incurred exclusively for providing regulated services or nonregulated activities.
- Directly Attributable: Costs of assets and/or resources which are incurred to provide both regulated services and nonregulated activities and are apportioned using direct measures of cost causation.
- Indirectly Attributable: Costs of assets and/or resources which are incurred for both regulated services and nonregulated activities and are apportioned using indirect measures of cost causation.
- Unattributable: Costs of assets and/or resources which are incurred for both regulated services and nonregulated activities, where no direct or indirect causal relationship exists. These costs are apportioned to both regulated services and nonregulated activities by utilizing a general allocator.

### 1.4 MAXIMIZATION OF DIRECT ASSIGNMENT

The following cost attribution guidelines support the procedures in this Manual:

- Costs are directly assigned to either regulated services or nonregulated activities to the maximum extent possible.
- Costs which cannot be directly assigned to either regulated services or nonregulated activities are grouped into homogenous cost categories and allocated in accordance with direct or indirect measures of cost causation.
- When neither direct nor indirect measures of cost causation exist, the common cost category is allocated based upon a general allocator computed by using the ratio of regulated/nonregulated expenses directly assigned or attributed to total expenses.

This process maximizes direct assignment of costs and thereby minimizes the residual to be spread on a non-cost-causative basis.

#### 1.5 Accounting Classification

Standard accounting codes have been established to support the financial systems. Every transaction undertaken by the Company including labor, material and supply invoices, vouchers and other journal entries are encoded with the following codes:

- Activity Code (AC)

The AC designation on each transaction identifies the business function served by the transaction and is translatable into a distinct USOA-Part 32 account. Activity Codes (ACs) designate the nature of the tasks or functions being performed by an employee according to his/her job assignment. Each employee may be assigned several ACs to capture the variety of work activities being performed.

- Responsibility Code (RC)

The RC designation required on each transaction in the Company identifies the organization in the corporate structure charged with the cost. The Company has established an extensive RC hierarchy whereby each employee within an organization or work group has been assigned one RC.

- Expenditure Code (XC)

The XC designation required on each transaction identifies the nature of the expenditure. This series of codes has been established on a very detailed basis to allow for the tracking of all components of wages, direct and indirect nonwage costs, material purchases and corporate transactions.

- Project Number - A code placed on transactions to provide cost tracking associated with a specific project. Project Numbers may be used to track specific regulated, nonregulated and affiliate costs.

#### 1.6 USE OF TARIFFED RATES FOR TARIFFED SERVICES

The FCC Part 64 Rules and Regulations require that tariffed services be provided to a nonregulated activity at tariffed rates. Tariffed services are used in the provision of regulated network components to nonregulated activities.

#### 1.7 USE OF NETWORK SERVICES FOR NONREGULATED ACTIVITIES

The FCC Part 64 Rules and Regulations require that shared investment (Central Office Equipment and Outside Plant) not covered under tariffed rates be apportioned to

nonregulated activities on the basis of the peak projected nonregulated usage of the investment over a three year forecast period.

## 1.8 REVENUES

Revenues from regulated services and nonregulated activities are directly identified by account in the Company's Part 32 system of accounts using unique Universal Service Order Codes (USOCs) and service rate elements, Carrier Access Billing System (CABS) Journal Account Codes, billing and collection service statements and miscellaneous bills.



The Southern New England Telephone Company  
Cost Allocation Manual

SECTION II

NONREGULATED ACTIVITIES INFORMATION

## NONREGULATED ACTIVITIES INFORMATION

### 2.1 OVERVIEW

The Company's nonregulated activities include the following:

Customer Network Management – is a value-added information service that will support most of SBC's dedicated ring and point-to-point optical services. CNM offers four distinct areas of data: Performance—monitors transmission quality and overall efficiency of the network; Fault—identifies potential and actual service outages on the network; Configuration—views and tracks attributes of the network; and Security—provides password and session controls.

#### Planning and Development Activities

This service involves the planning and development of potential nonregulated services, and also includes regulated services that are classified as nonregulated. These planning and development activities include all preparation activities prior to introducing the product for public offering. There are no revenues associated with this activity.

**NONREGULATED ACTIVITIES**

ACTIVITY			
1: Reserved			
2. Customer Network Management			
3. Planning and Development Activities			
	1	2	3
ACCT			
1220		X	X
1410		X	X
2003		X	X
2111		X	X
2112		X	X
2114		X	X
2121		X	X
2122		X	X
2123		X	X
2124		X	X
2212			X
2362			X
2682		X	X
2690		X	X
3100		X	X
3420		X	X
4100		X	X
4300		X	X
4340		X	X
5280		X	X
6112		X	X
6114		X	X
6121		X	X
6122		X	X
6123		X	X
6124		X	X
6212			X
6232			

**NONREGULATED ACTIVITIES**

	2	3
ACCT		
6362		X
6512	X	X
6531		X
6534	X	X
6535	X	X
6561	X	X
6563	X	X
6564	X	X
6611	X	X
6623	X	X
6720	X	X
7100	X	X
7210	X	X
7220	X	X
7230	X	X
7240	X	X
7250	X	X
7300	X	X
7500	X	X





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Cost Allocation Manual**

**SECTION III**

**INCIDENTAL ACTIVITIES**

## INCIDENTAL ACTIVITIES

### 3.1 OVERVIEW

This Section identifies and describes nontariffed activities offered incidental to the Company's tariffed services. Activities performed under federal or state tariffs are not considered incidental. Activities provided to or from affiliates are accounted for according to the rules for affiliate transactions as described in Section V of this Manual and are excluded from incidental revenues.

### 3.2 GUIDELINES AND LIMITS

Incidental treatment is accorded these activities under the following qualitative guidelines and quantitative limit:

- . The activity is not a line of business. No business or marketing plans exist for the activity and the Company does not actively solicit customers. Minimal incremental commitment of resources or investment is made to the activity.
- . The activity is an outgrowth of regulated operations.
- . The aggregate revenues derived from incidental activities is less than one percent of the Company's total regulated and nonregulated revenues.

### 3.3 DESCRIPTION OF INCIDENTAL ACTIVITIES

#### Billing and Collecting Services

The Company provides billing and collecting services for cable and radio messages transmitted by others. The Company also receives revenue from calling card and third party billing.

This activity is an outgrowth of regulated operations and has traditionally been treated as regulated for ratemaking purposes. This activity is not pursued as a separate line of business and requires minimal incremental resources.

#### Custom Work

Revenue is realized from custom work (plant construction) performed for third parties incidental to the Company's regulated telecommunications operations. This includes revenue from nontariffed construction activities (including associated engineering and design) which are similar in nature to those activities performed by the Company in constructing its own telecommunications plant facilities.

This activity is an outgrowth of regulated operations and has traditionally been treated as regulated for ratemaking purposes. This activity is not pursued as a separate line of business and requires minimal incremental resources.

#### Surplus Space

Space in buildings and other space originally acquired to meet the needs of the Company's regulated operations may become available as surplus for rental to third parties.

This activity is an outgrowth of regulated operations and has traditionally been treated as regulated for ratemaking purposes. This activity is not pursued as a separate line of business and requires minimal incremental resources.

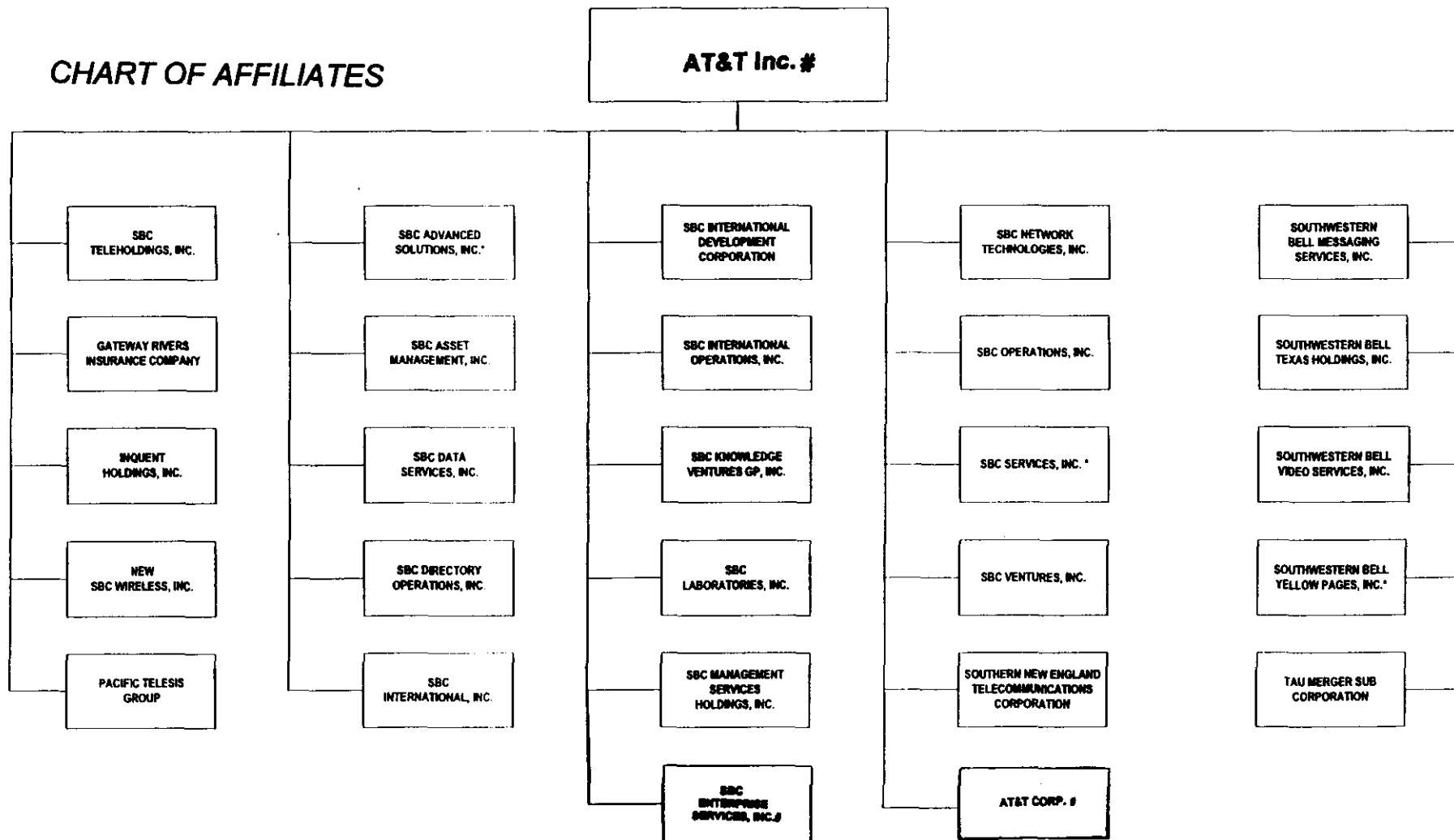
### 3.4 COMPLIANCE WITH QUANTITATIVE LIMIT

In the aggregate, revenues from incidental activities as described in Section 3.3 do not exceed one percent of the Company's total regulated and nonregulated revenues.



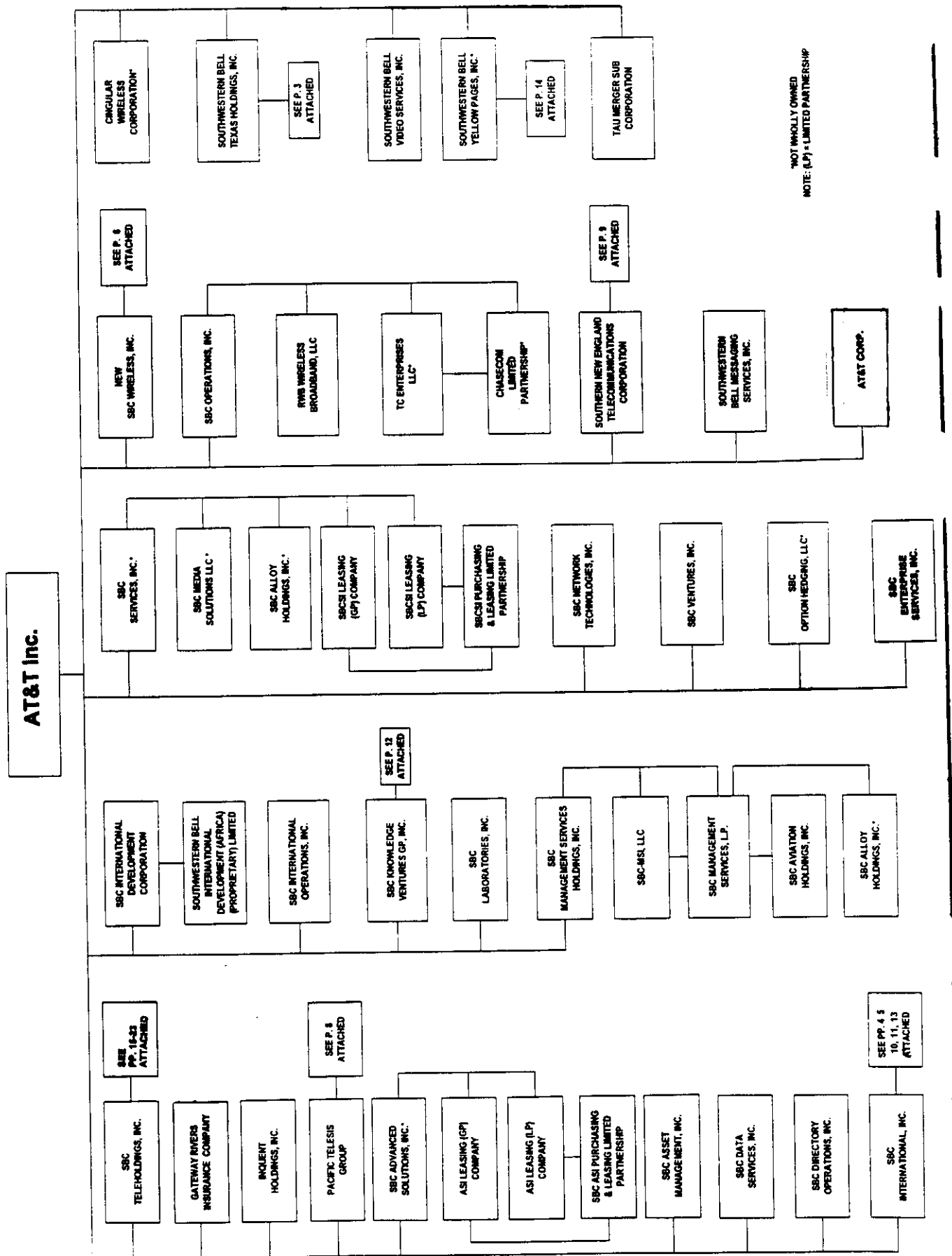
FIRST-TIER SUBSIDIARIES  
AS OF SEPTEMBER 30, 2005

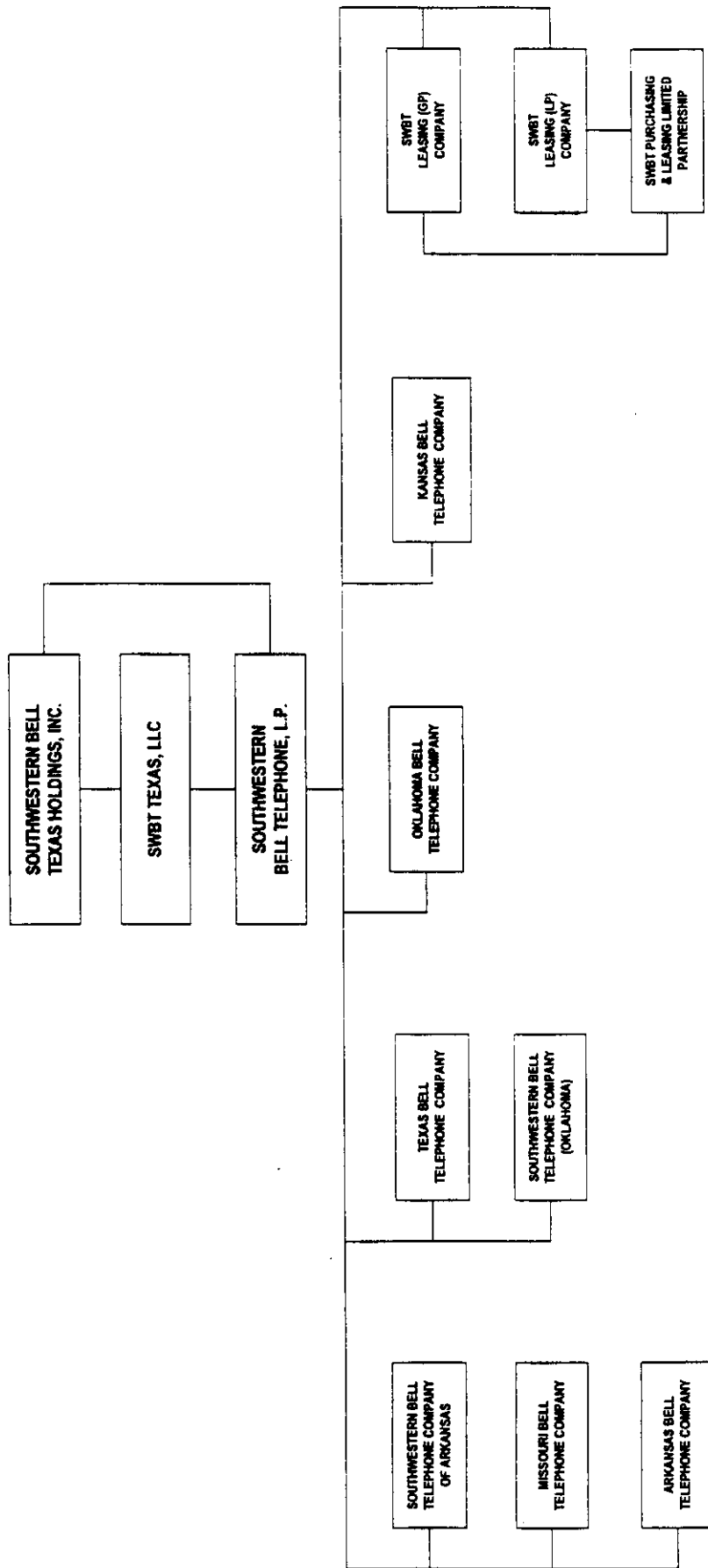
CHART OF AFFILIATES



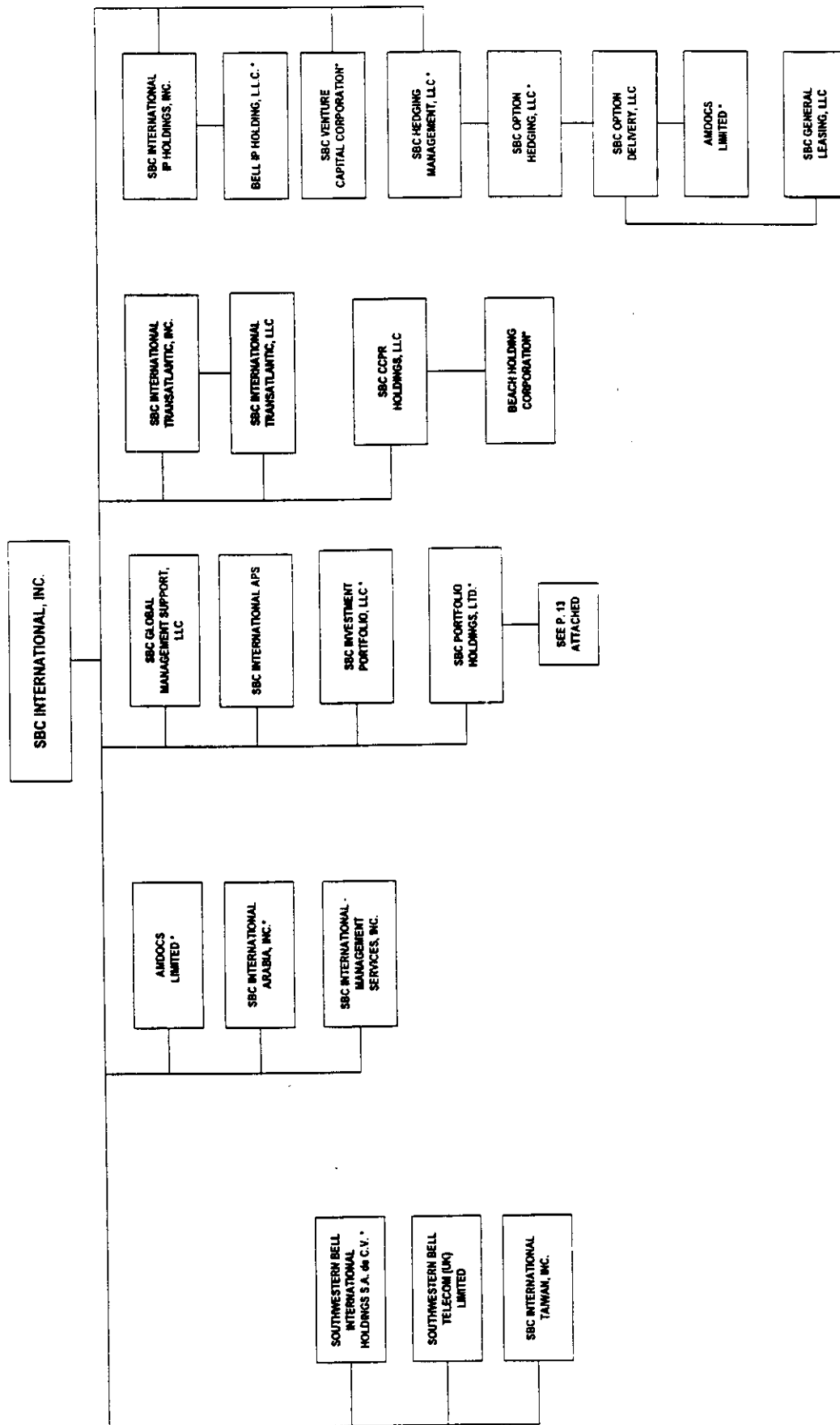
#Note: SBC Communications Inc. was renamed AT&T Inc. after merger with AT&T Corp., subsequent to the September 30, 2005 organization chart date. SBC Enterprise Services, Inc. was created after the September 30, 2005 organization chart date.

\*NOT WHOLLY OWNED

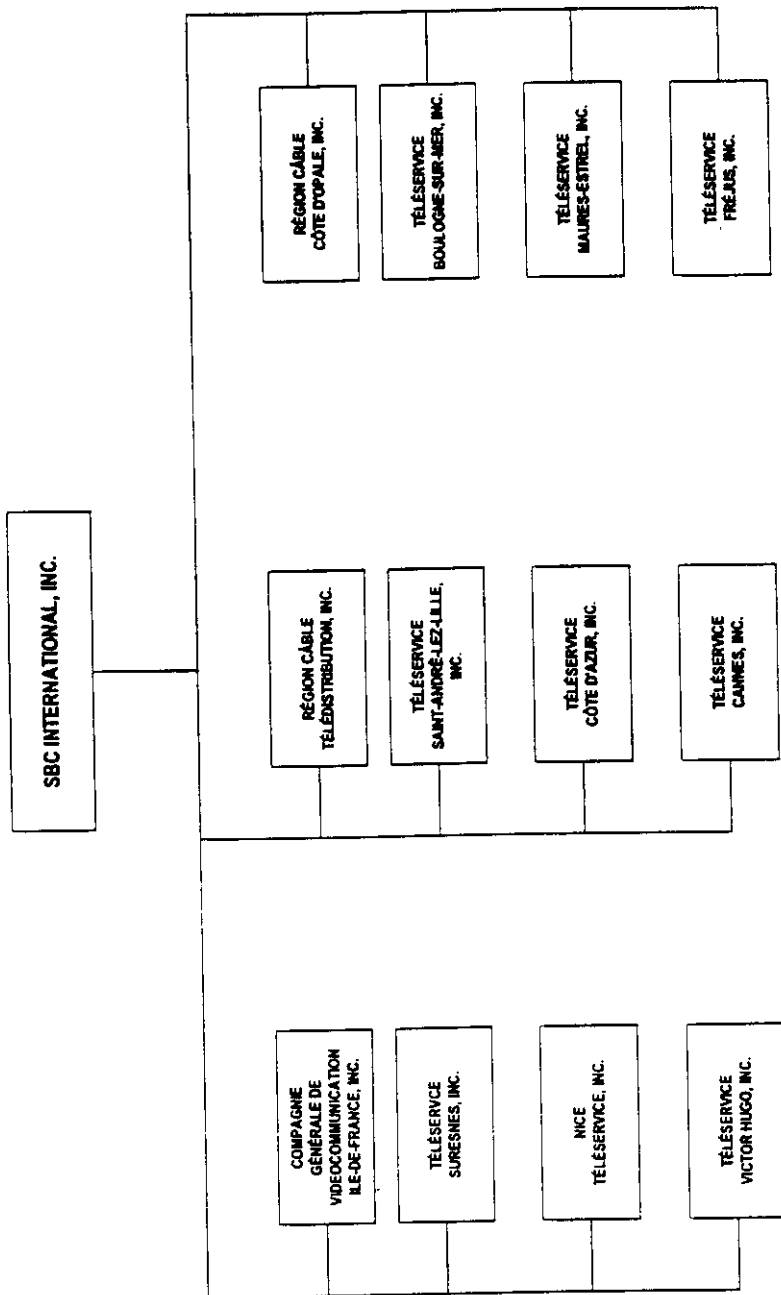




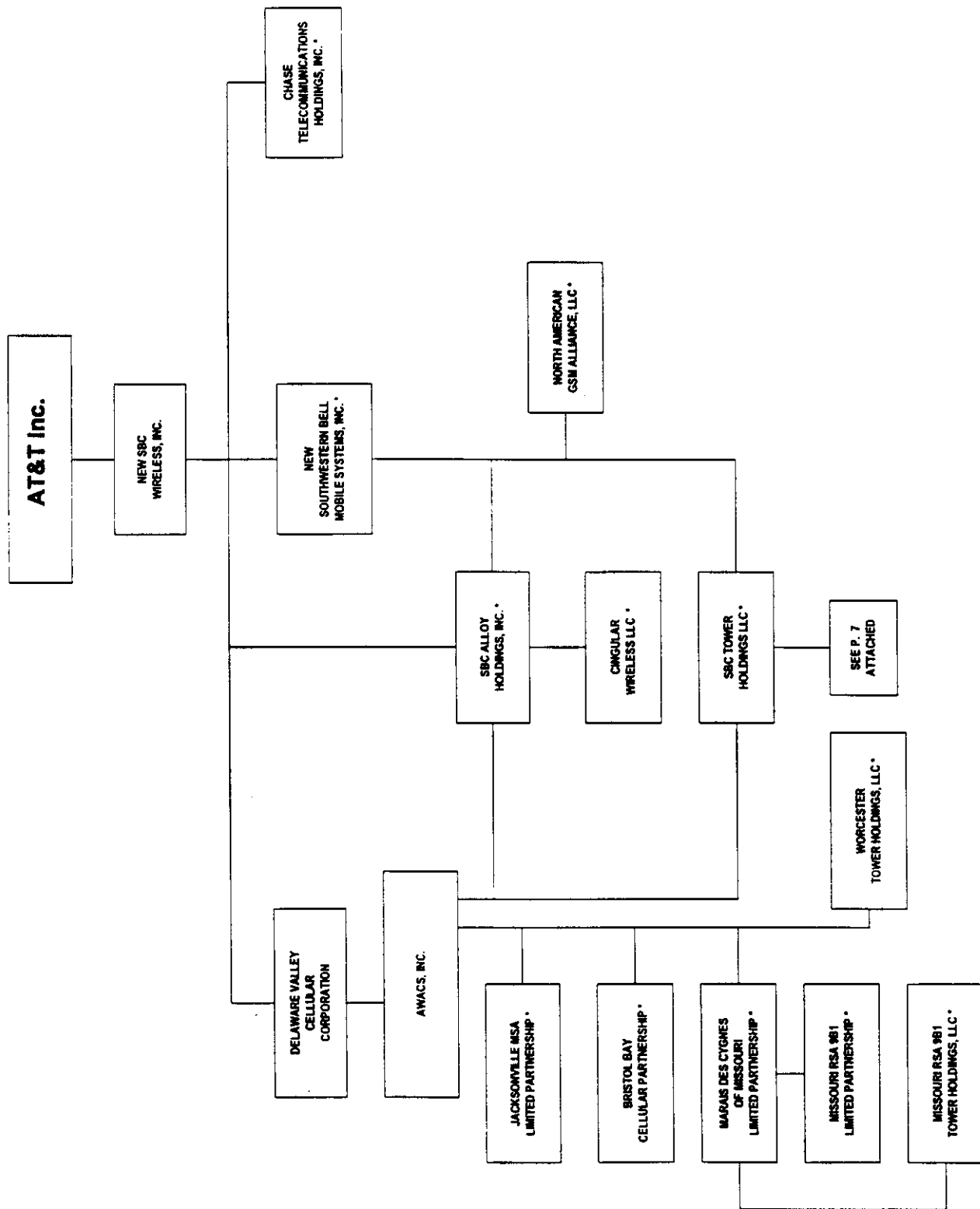




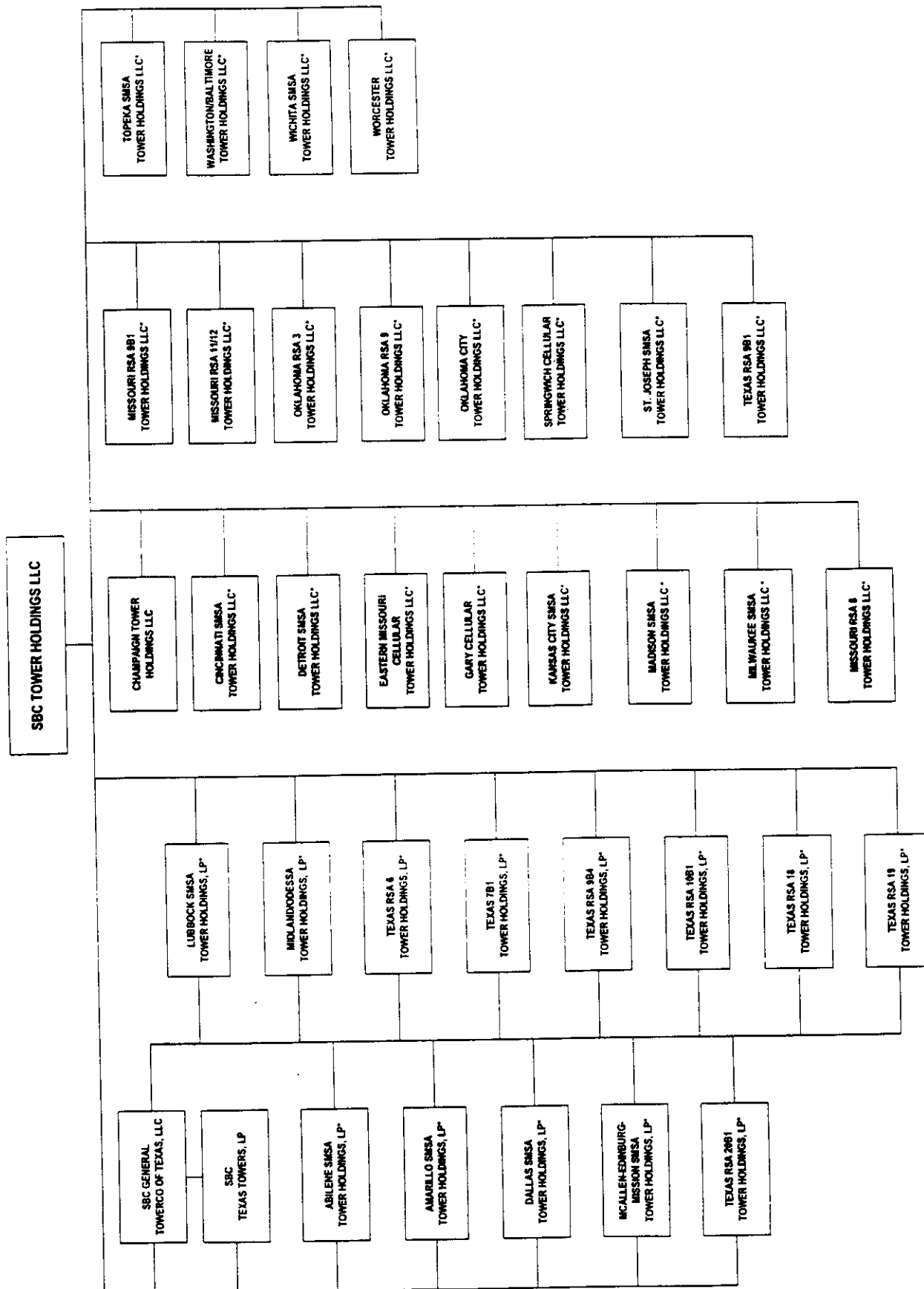
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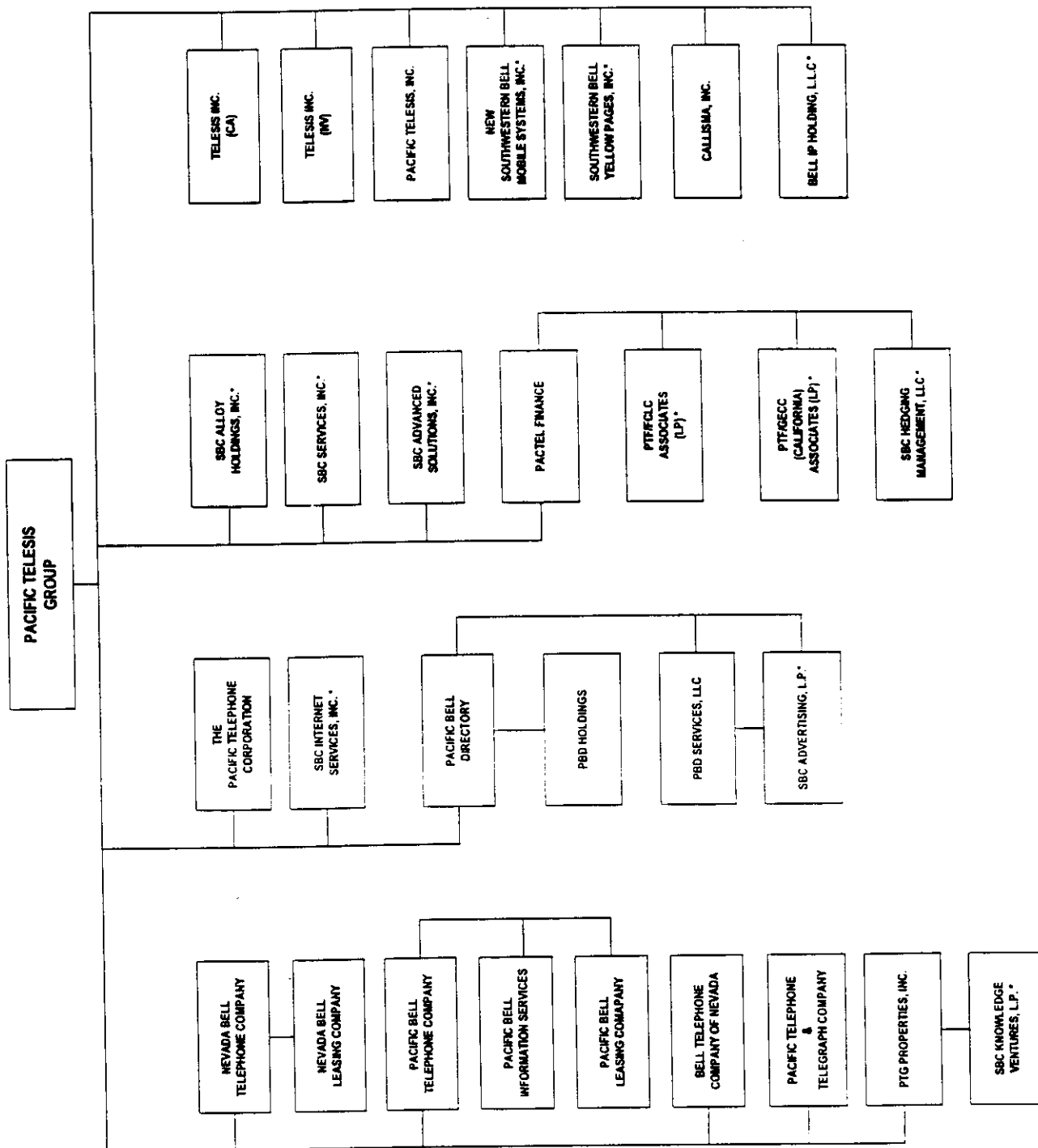
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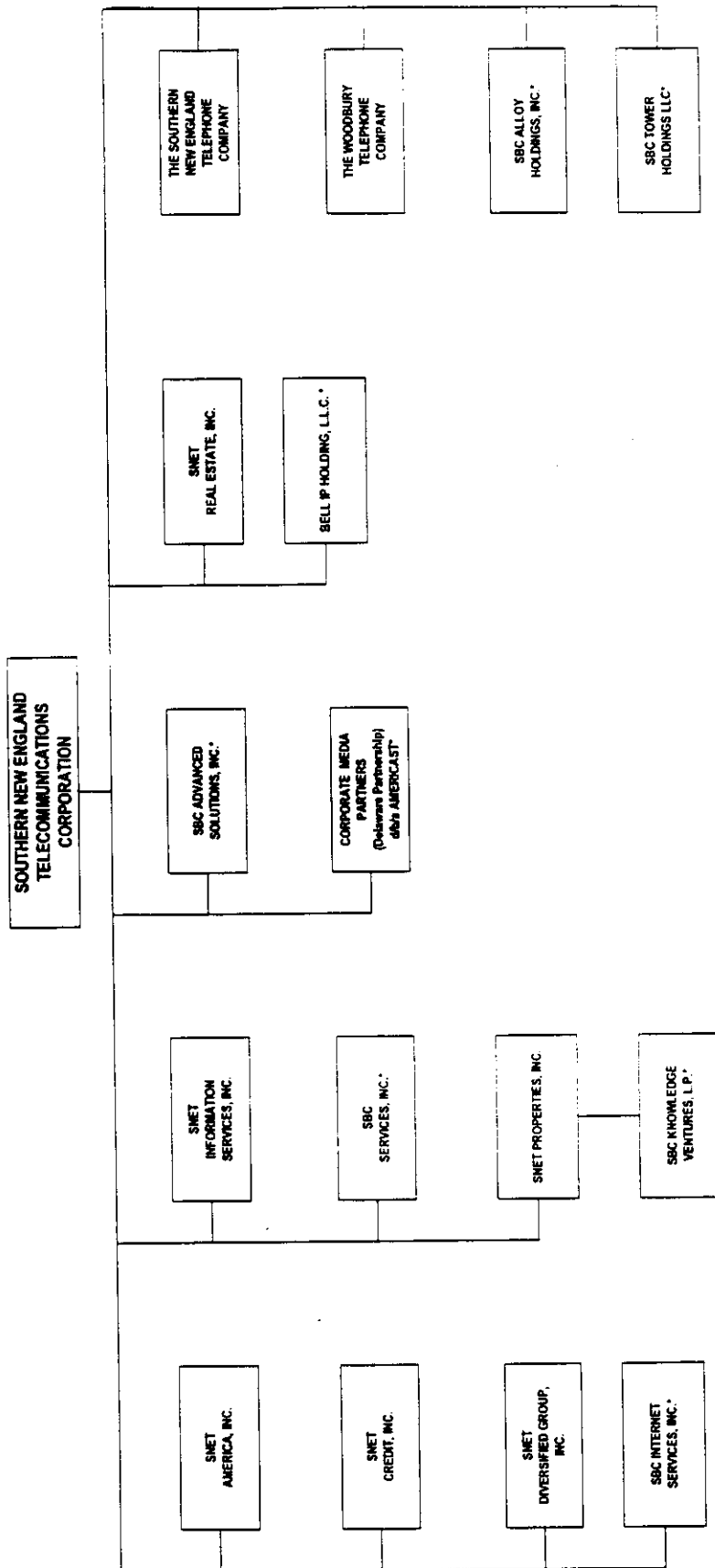
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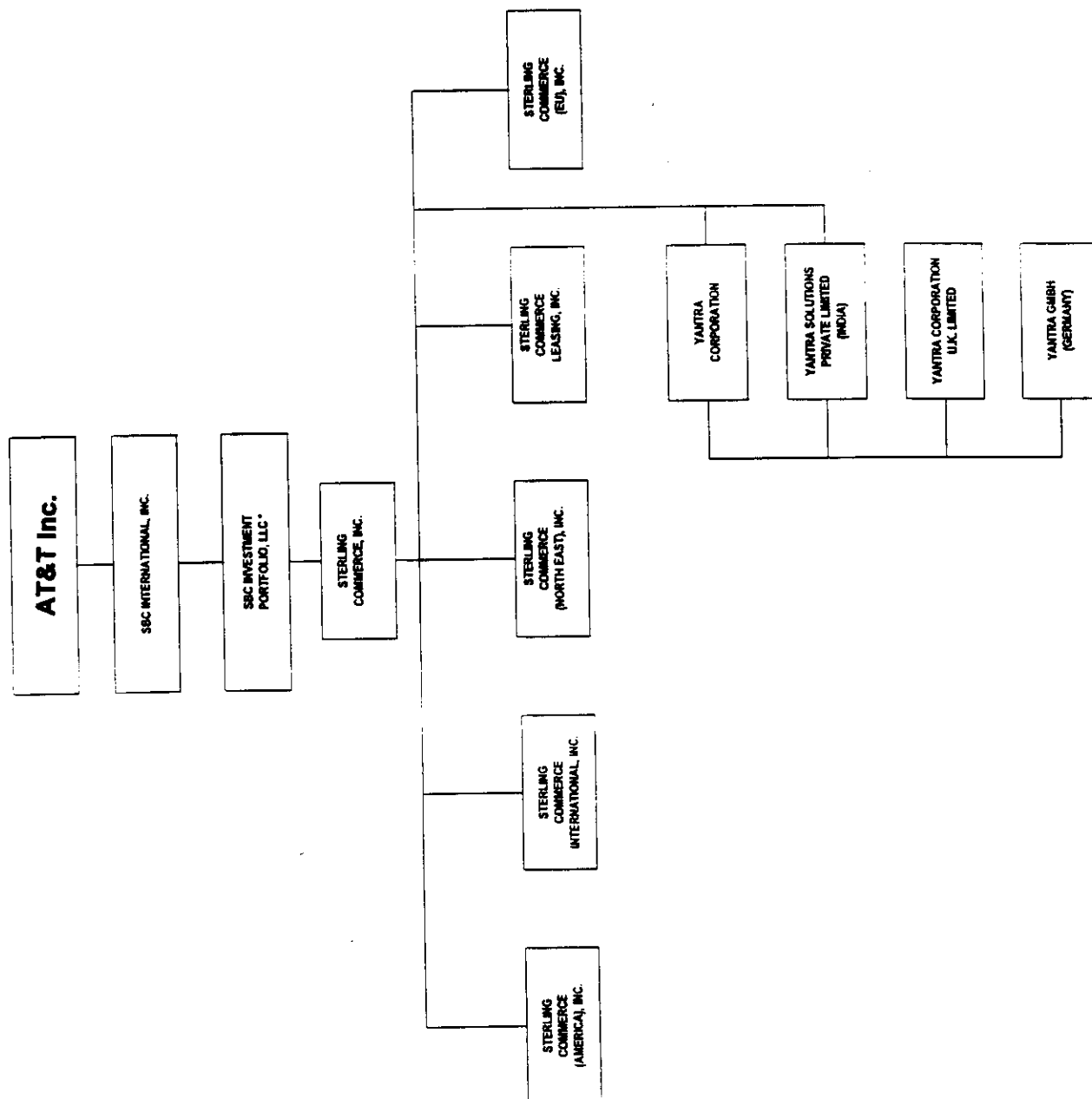
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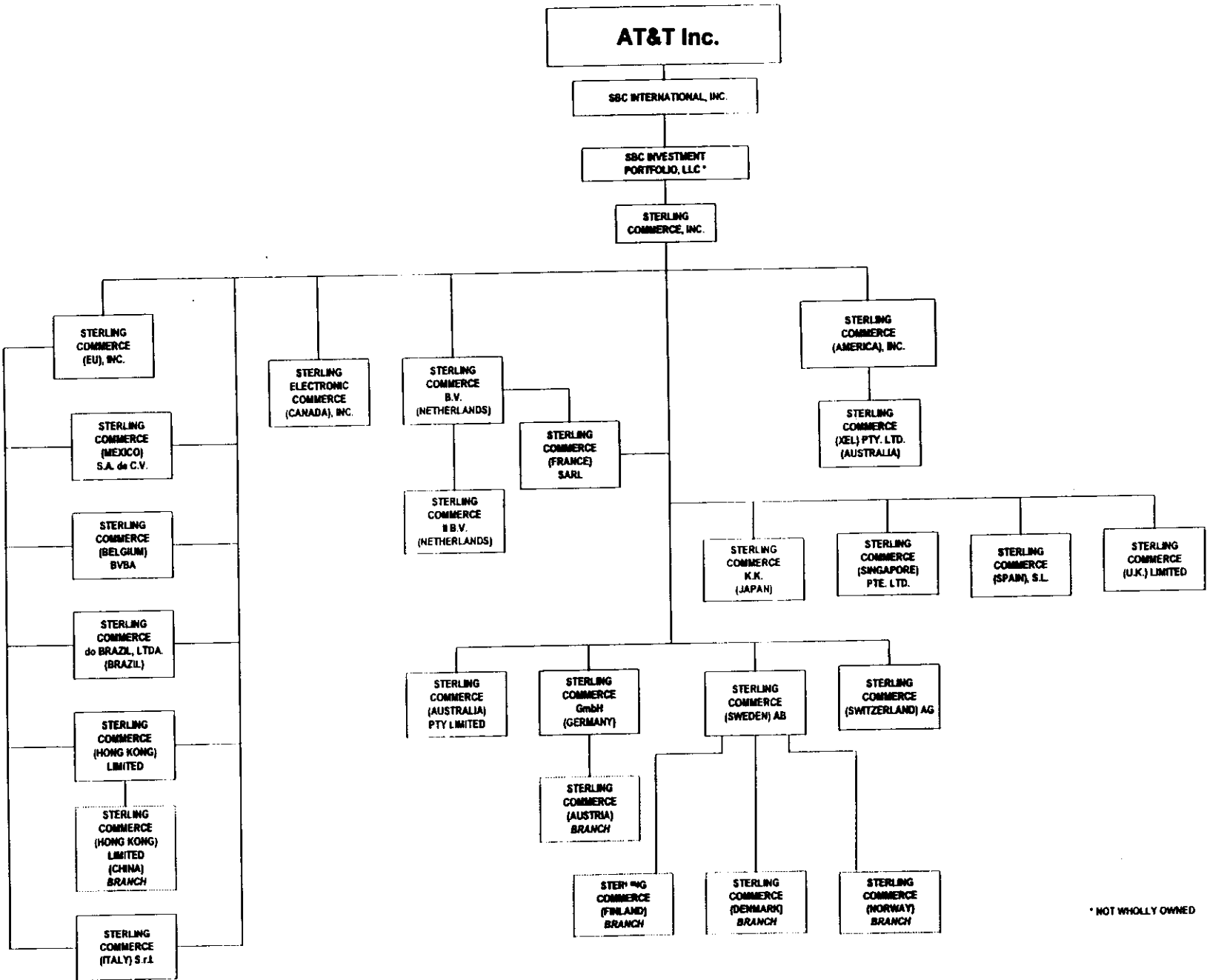
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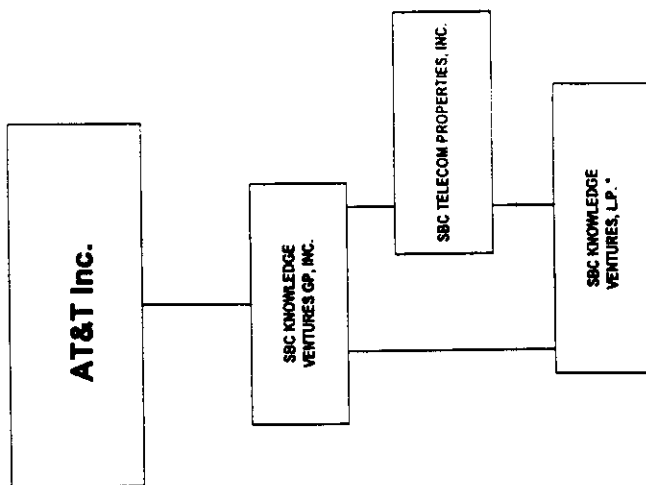


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